

# Further Uncertainty for Pension Funds into 2003

*Eamonn Liddy of Mercer Investment Consulting summarises fortunes of Irish pension managed funds into 2003.*

With the ebb and flow of news from the Gulf, not surprisingly, dominating investor sentiment for the opening months of 2003, returns from pension managed funds have continued to mirror this volatility.

According to figures released by Mercer Investment Consulting, the average pension managed fund fell by 4.9% over the first three months of the year, before bouncing back strongly in April to give an average return of 0.1% for the four months to end April 2003.

The global economy remains delicately poised – and with investment managers displaying varying degrees of confidence or indeed trepidation regarding the likely course of events over coming months, pension fund trustees and members continue to monitor their managers closely.

## YEAR TO DATE PERFORMANCE

At 30th April, F&C Ireland (formerly Friends First) top the Mercer survey over the short term with a year-to-date return of 0.7%, closely followed by AIBIM, Irish Life and New Ireland, all of whom returned 0.5% over the same period. The biggest underperformers were Aberdeen (-1.2%) and KBCAM (-0.4%).

The day-to-day volatility in markets has made it extremely difficult for commentators to form views on familiar themes such as “equities/bonds” or “value/growth”. For managers, this has meant that individual stock selection, and

timing of transactions, have been important factors over early 2003.

Over the short-to-medium term however, the better performing managers have benefited from holding an underweight equity position, while also positioning themselves at a stock level towards more defensive areas of the market. This is reflected in the returns for 12 months to end April 2003, which show Bank of Ireland Asset Management (BIAM, -15.0%) and New Ireland (-15.2%) at the top of the pile, while KBCAM (-21.1%) and AIBIM (-20.7%) bring up the rear. BIAM have maintained relatively light equity weightings, combined with a bias towards the defensive sectors of equity markets. This style is in contrast to the likes of AIBIM and KBCAM whose portfolios have been positioned to take advantage of the long-awaited market recovery.

## LONGER TERM PERFORMANCE

Over the five-year period to 30th April, New Ireland top the survey (+2.3%p.a) followed by BIAM and Montgomery Oppenheim (both +1.7% p.a.). This compared to an average return of -1.1%p.a. AIBIM (-2.9%p.a) and Standard Life (-2.8%p.a) were the underperformers.

The severity of the current situation is illustrated in these medium-term figures, whereby over the five-year period, performance returns (the average fund has posted -1.1%p.a.) have obviously failed to meet the rate of inflation.

However, the longer-term nature of pension fund investment shows a somewhat more positive picture. Over the 10-year period, the declines over the last three years are overshadowed by the strong double-digit growth of the mid to late 1990s. The average return over this period is +9.1%p.a., which comfortably exceeds inflation and should provide some reassurance to investors at this time.

## INVESTMENT STRATEGY

While the average “discretionary” pension fund, as reported here, continues to hold approximately 65%-70% of their fund in equities, individual pension funds have been reacting strongly over recent years to a need to adopt an asset strategy that more accurately reflects their scheme’s liability profile and their particular objectives and risk appetite. This has led to a significant trend away from the conventional wisdom of the “average manager” towards consideration of wider investment issues, and measurement of investment performance against scheme-specific benchmarks.

Trustees and sponsors have learnt the hard way that investment managers, no matter how skilful, will only manage their clients’ assets around the comparative measure employed by the Trustees and will not incur the business risk of straying excessively – no matter how strong their convictions!

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## GROUP PENSION MANAGED FUND UPDATE AT 30TH APRIL

MANAGER	1 MTH %	RANK	YTD %	RANK	12MTHS %	RANK	3 YRS % P.A.	RANK	5YRS %P.A.	RANK	10 YRS %P.A.	RANK
Aberdeen	5.6	3	-1.2	15	-20.3	13	-10.0	9	-2.	11		
Acorn Life	5.5	4=	-0.2	13	-18.6	12	-10.5	12	-1.9	8	8.9	7
AIBIM	5.0	13	0.5	2=	-20.7	14	-11.8	13	-2.9	14	7.6	12
BIAM	5.4	6=	-0.1	10=	-15.0	1	-4.1	1	1.7	2=	10.2	3
Canada Life/ Setanta (Series D)	5.1	10=	0.3	5	-18.0	10	-9.5	8	-2.0	9=	8.0	11
Eagle Star (Balanced)	4.3	14	-0.1	10=	-16.3	5	-9.1	6	-1.7	7	10.5	2
Friends First/F&C	5.3	8	0.7	1	-16.9	8	-10.4	10=	-2.0	9=	9.2	6
Hibernian Life	5.1	10=	0.1	8=	-17.4	9	-9.4	7	-1.2	5	9.3	5
Hibernian (NU) Managed	5.2	9	0.2	6=	-16.6	7	-7.7	3=	-1.0	4	9.8	4
Irish Life	6.3	1	0.5	2=	-18.2	11	-7.7	3=	-1.5	6	8.4	8
Iriah Life Global Access	3.4	15	-0.1	10=	-16.2	4						
KBCAM	5.5	4=	-0.4	14	-21.1	15	-12.4	14	-2.5	12	8.2	9
Montgomery Oppenheim	5.8	2	0.2	6=	-16.5	6	-8.3	5	1.7	2=		
New Ireland	5.4	6=	0.5	2=	-15.2	2	-4.3	2	2.3	1	10.7	1
Standard Life Investments	5.1	10=	0.1	8=	-16.0	3	-10.4	10=	-2.8	13	8.1	10
<i>Average</i>	<i>5.2</i>		<i>0.1</i>		<i>-17.5</i>		<i>-9.0</i>		<i>-1.1</i>		<i>9.1</i>	
<i>Medium</i>	<i>5.3</i>		<i>0.1</i>		<i>-16.9</i>		<i>-9.4</i>		<i>-1.8</i>		<i>9.1</i>	

Source: Mercer Consulting

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